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RESEARCH

Sustainability efforts to boost investor interest in luxury houses: report

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Merino sheep, used by Zegna, on the Australian grasslands

By JEN KING

Forty-six percent of CEOs agree that climate change and the scarcity of resources will transform their business, according to a new report by Positive Luxury.

Positive Luxury's "2016 Predictions for the Luxury Industry: Sustainability and Innovation" report examined impactful events from 2015 to forecast how these world happenings will impact luxury going forward into 2016. Sustainability is proving itself more than just a fad, with consumers becoming increasingly aware and conscious of how and what they purchase, and as a result investors are putting more weight into sustainable business models.

"Companies across all industries face material business risks and opportunities, which come about from regulatory and market trends on environmental and social issues," said Diana Verde Nieto, co-founder of Positive Luxury, London.

"When sustainability is viewed as a cost, or it lacks alignment with the company's corporate strategy, the business underperforms and the material risks are not addressed," she said. "Therefore, sustainability will help brands to de-risk their business and remain competitive.”

Together with the Luxury Institute, Positive Luxury conducted one-on-one interviews with key opinion leaders in the luxury lifestyle space, NGOs, The World Economic Forum and CMOs. CSOs and CEOs from top luxury brands and groups. Participants included LVMH, Kering, Forevermark, IWC and the British Fashion Council, among others.

Green machine

Over the course of 2015, governments and world leaders worked to pass legislation and develop strategic plans to protect the environment and underprivileged workers in developing nations.

In the last year, the Sustainable Development Goals were introduced, the Modern Slavery Act was passed and global leaders gathered to attend the COP21 summit in Paris. These milestones, and others, reflect a shift in CRS methods that extend beyond “good PR,” but rather show an increased consciousness of ethics and legal obligation.

While world leaders gathered in Paris to discuss climate change during COP21, French luxury conglomerate LVMH saw an opportunity to tout its sustainability practices while the world narrowed its lens on the topic.

Shared in a series of posts on its corporate social account on Facebook, LVMH offered insights into various programs and strategies implemented by the conglomerate and brands found within its stable, which includes Louis Vuitton, Bulgari and many others. Transparency has become a necessity as consumers are increasingly aware of and concerned about how and where the products they buy are made and the social and environmental impact they may have (see story).

For luxury, these international events have left brands with no other option than to approve their processes. While consumer opinion once drove sustainability practices, now the potential for sales and stock prices to fall increases, as does attention from lawmakers.

During its research for the report, Positive Luxury found that consumers are aware of the power they possess and know they can make a difference. Beyond being vocal about social and environmental causes, consumer power is also based on the product purchases they make.

Likewise, C-suite executives have found that to keep brand value and continue growth, an investment in sustainability performance and practices is a must. Also, given transparency’s importance in the minds of consumers, the way in which brands communicate their positive impact has also grown.

French luxury conglomerate Kering, for example, is helping the world visualize its environmental impact with an interactive environmental profit and loss statement.

Kering’s results page on the conglomerate’s Web site contains a grid depicting the various steps in production and environmental categories in which it could make an impact, with each square containing a circle in relation to the impact that has been made. Kering’s transparency shows its dedication and the steps it has taken while also helping other companies to examine where they can make changes one step at a time (see story).

The color of money

While there has been growth in marketing efforts boasting sustainability practices and an increase in transparency as to how products are manufactured, 2016 will see a higher demand from investors for business with sustainable business models.

As mentioned above, nearly half of brand CEOs agree that climate change and resource scarcity will transform their business, making environmentally-sound choices even more significant.

Luxury houses such as Saint Laurent and Christian Dior have implemented tactics that are environmentally sound. For instance, three Saint Laurent storefronts have been given the highest LEED certification (see story), while Dior has incorporated responsible lighting in a number of its international boutiques.

Additionally, brands are becoming more conscious of protecting the resource supply chain. Prada, for instance, purchased the French tannery Tannerie Mégisserie Hervy to ensure the skills held by its workers are preserved (see story) and in a similar move, Chanel purchased French lamb hide tannery Bodin-Joyeux in 2013 (see story).

The shift toward more sustainable models has also piqued the interest of investors, with 71 percent of individual investors showing interest in sustainable investing based on environmental, social and governance (ESG) criteria.

"As the importance of sustainability intensifies for businesses, the financial markets are increasingly forced to address the challenges posed to them," Ms. Verde Nieto said. "These challenges come about from the realities of natural resource scarcity, the effects of unabated carbon-emissions, rapid urbanization and the widening wealth inequality, just to name just a few.

"From an investment point of view, the time horizon relevant to sustainability-related risks and opportunities is neither uniformly long-term nor short-term," she said. "Some of these risks and opportunities are upon us right now, powerfully shaping the current business environment, and must be dealt with in the short term.

"This was validated by the outcome of COP21, where for the first time in history, the 195 countries attending agreed to take measures to mitigate climate change, recognizing that this is an issue that is affecting everyone."